

ACCOUNTANCY

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CONTENTS

	PAGE		PAGE		PAGE
PROFESSIONAL NOTES		ACCOUNTANCY AS A RESERVED		FINANCE	
A Realistic Budget ...	129	OCCUPATION ...	135	The Month in the City ...	144
Accountancy as a Reserved		LORD STAMP—A PERSONAL		Points from Published Accounts	145
Occupation ...	129	TRIBUTE ...	135	THE MONTH'S PUBLICATIONS ...	146
War Damage Insurance ...	130	TAXATION		THE EMERGENCY ACTS AND ORDERS	147
Limitation of Supplies Orders	130	E.P.T.—Working Proprietor...	136	WAR DAMAGE TO BUILDINGS	
The Value of Small Firms ...	130	Farm Accounts—Valuation of		AND LAND ...	147
EDITORIAL		Stock ...	136	SOCIETY OF INCORPORATED	
Legislation for War Debtors...	131	War Damage Act, 1941 ...	136	ACCOUNTANTS	
LEADING ARTICLES		Dominion Income Tax Relief	136	Council Meeting ...	148
War-time Developments in		RECENT TAX CASES ...	137	Annual General Meeting ...	148
Auditing ...	132	BUDGET ESTIMATES, 1941-42	138	Examinations ...	148
The Budget ...	133	Avoidance of Sur-tax...	140	South African (Northern)	
		LIMITATION OF SUPPLIES	141	Branch ...	148
				Membership ...	148
				Removals ...	148

PROFESSIONAL NOTES

A Realistic Budget

The Chancellor has at last faced up to the situation. There are heavy increases in taxation, details of which we give on another page. The full reality of what war finance means must now be plain to all, including, it is gratifying to record, the Chancellor himself. As the figures given in the tables on page 138 of this issue show, the Chancellor estimates that he must obtain about £4,207 million during the financial year 1941-2. Not all this is domestic expenditure; part of it is covered by balances accumulated here by Dominion and other countries. The Chancellor places domestic expenditure proper at £3,700 million as compared with the corresponding figure of £2,055 million for the first year of the war. The total estimated revenue for 1941, on the existing basis, is put at £1,636 million. Basing his calculations upon statistics produced by the Central Statistical Office—reproduced in a valuable White Paper (Command 6261) of which all accountants should obtain a copy—the Chancellor estimates that miscellaneous sources such as extra-budgetary funds, investments made in lieu of making good depreciation of business assets, savings of companies and institutions and the private savings of individuals will, at the present rate of private savings, amount to £1,600 million. Thus there is a gap "of about £500 million" which the Chancellor seeks to meet as to one-half by increases in taxation, particulars of which are given elsewhere in this issue, and as to one-half

by more intensive private saving. The statistics contained in the White Paper have not been entirely free from criticism, and there are grounds for believing that the Chancellor has underestimated the size of the "gap." Nevertheless, this is the first real effort of the Treasury to face up to the war.

Accountancy as a Reserved Occupation

Particulars affecting those engaged in the accountancy profession, included in the recent revised Schedule of Reserved Occupations, are given on page 135 of this issue. The accountancy profession desires to give all the support of which it is capable to the prosecution of the war and is mindful of its duty in regard to the Armed Forces of the Crown. But already a large number of men are serving with H.M. Forces, and others have responded to the call for accountancy work in Government Departments. We cannot disguise that the raising to 30 of the reserved age for qualified accountants and audit assistants will have serious consequences throughout the profession, especially in view of the volume of additional work arising from war legislation and emergency Orders. So far as can be ascertained at present the only method of requesting relief is for firms to make application to the Board of Trade for the deferment of calling up of indispensable partners and staff affected by the decision. Such applications should not be forwarded

until the precise date of Stage B is known. We understand that this procedure is receiving the close attention of the accountancy bodies. Meanwhile, it is necessary to state that the special facilities as to "protected work" referred to in the Schedule are not available to the accountancy profession or to firms of practising accountants.

War Damage Insurance

The business scheme under the War Damage Act, 1941, came into operation on April 17. There is a statutory obligation on business people to insure movable plant and machinery, business equipment, office furniture and the like wherever the total value of such property is more than £1,000. Where the value is under this figure insurance is voluntary. Three policies will be issued to provide cover up to September 30, 1941, the periods of insurance ending on June 15, August 15 and September 30. Subject to an application form and the premium, at the rate of 10s. per cent. being received by an insurance company or by Lloyds (acting on behalf of the Board of Trade) within thirty days of April 17, the applicant will be held covered. Professional persons come within the scheme as regards their professional equipment. Farmers are required to insure if the net Schedule A assessment, or in the case of tenant-farmers, the annual rent of the farm or the annual rent together with the Schedule A assessment of any part of the farm owned by the farmer exceeds £50. In such cases the insurance must be for a sum not less than twice the net assessment or annual rent, insurance above that figure being voluntary. Where the net Schedule A assessment or annual rent does not exceed £50 insurance is again voluntary. The private chattels scheme is on a voluntary basis. It comes into operation on May 1, 1941. Provided application is made within one month of that date, applicants will be held covered in respect of the amount for which they apply. Further, householders will receive a free cover, without the necessity of an application, on the following scale:—Single persons, £200; married couples, £300, with an extra £25 for each child under 16. Non-householders will receive free cover up to £50. As in the case of the business scheme, the insurance companies and Lloyds Underwriters will act as agents for the Government. The premium is 1 per cent. per annum for amounts up to £2,000, 1½ per cent. for the next £1,000, and thereafter 2 per cent. up to the maximum total of £10,000.

Limitation of Supplies Orders

We would draw our readers' attention to the article on Limitation of Supplies, appearing on pages 141-143 of this issue.

In view of the many demands in other directions on the accountancy profession, the Board of Trade have intimated that, where owing to pressure of other essential work a practitioner is unable to complete his examination of a client's return under one or other of the Limitation of Supplies Orders by the date by which that return is due to be rendered to the Board, sympathetic consideration will be given to an application for extension of time. Any such

application should be made by the practitioner, not by his client, should indicate the approximate date by which the examination will be concluded, and should be accompanied by the return itself completed except as regards the auditor's certificate. The certificate, with a copy of the return, would then be furnished by the date agreed by the Board.

The Value of Small Firms

The necessity for the Government plan for concentrating industry in fewer units is generally recognised. But there is considerable misgiving lest the facile assumption is made that the small units in industry are *ipso facto* less efficient than the large ones. On all sides the Government has been urged to avoid this erroneous assumption. It has, indeed, been officially stated that the Government's policy is not directed against the small firms as such. While only general statements regarding that policy are made, it is not possible to say whether the position of the small firm, which though small is also efficient, will be properly safeguarded, but those who are acquainted with the schemes which are being pressed forward in a number of industries feel that there is cause for some concern in this regard. Most accountants will be able to supplement with first-hand evidence the consensus of opinion among economists that small firms are not in general less efficient than the larger units. "It cannot be concluded," states the Oxford Institute of Statistics, "that efficiency increases with size; in many cases there is conclusive evidence to the contrary. Further, in the period 1918-35 no natural trend against the small firm is observable. The successive Censuses of Production reveal that the small enterprises preserve their place tenaciously in the national economy in spite of the quite obvious monopolistic tendencies observable in the last decade." It has been shown by the same Institute—which, incidentally, is doing extremely valuable work in statistical research, despite the war—that the average net output per worker in the small firm is not appreciably lower than in larger firms. Admittedly, output per worker is not the only or best criterion of efficiency but the fact thus adduced by the Institute is noteworthy.

High Taxation and Evasion

An inevitable consequence of very high taxation is the greater incidence of evasion. Practising accountants will know full well how important this is. The Finance Bill has not yet been published, but the Chancellor has announced that he proposes to deal with certain loopholes of which advantage might be taken by companies and firms liable to E.P.T. He made particular reference to the practice of "buying a standard" by which he meant the amalgamation of businesses, not naturally connected with one another, aimed at reducing the liability for E.P.T. He also stated that there would be a provision in the Finance Bill to defeat the intention of transfers of shares made in order that the remuneration of directors holding more than 5 per cent. of shares might be allowable for purposes of E.P.T. It is likely that other provisions aimed against tax evasion will be included in the Finance Bill and that these measures will be made retrospective where necessary.

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LEGISLATION FOR WAR DEBTORS

The Liabilities (War-time Adjustment) Bill has been called the Debtor's Charter. The description is not inappropriate. The Bill sets out to help those unfortunate people who, as a result of war circumstances, have found themselves heavily in debt. Without some such legislation as this, these people would in most cases be confronted with all the stigma of the Bankruptcy Court, and, even then, would find themselves loaded with a heavy burden of debt for the duration of the war, and probably even afterwards. The Government has wisely decided that debtors should not be forced into this position as a result of circumstances over which they have had no control. The small retail tradesman, the boarding-house proprietor, or the garage keeper, whose custom has evaporated with the enforced evacuation of his clients—and these are the typical cases which the Bill seeks to protect—has the right to be treated as a war victim and to claim that the Government should modify normal legal processes accordingly. But although this is a Debtor's Charter, it must not be forgotten that it is in the interests of the creditor also that the business and livelihood of the debtor should be preserved. It is an explicit purpose of the Bill that any arrangements for staying or modifying debts should aim at the maintenance of the debtor's livelihood, and the preservation of his business in cold storage until after the war. The accountant, moreover, will be quick to appreciate the value, apparent even in normal times, of an arrangement reached mutually between debtor and creditor, as opposed to an insolvency order enforced by the law.

The machinery laid down by the Bill has already been explained in these columns, and most readers will be familiar with it. In essence, it seeks to ensure that arrangements shall be made between debtors and creditors on an agreed basis. A new kind of official known as a Liabilities Adjustment Officer will be appointed in a number of districts throughout the country in order to bring debtors and creditors together for this purpose. If all the creditors do not agree to the proposals made, there is power for the issue to be referred to the County Court for a decision, and the Court will have in front of it the report prepared by the Liabilities Adjustment Officer. It is clear that the functions and responsibilities of this officer are at the core of the Bill, and the value of the departure in procedure will largely depend upon the way in which the Liabilities Adjustment Officer acts.

While the accountancy profession has, for a very

long time, played a vital part in insolvency work, which the new procedure will to some extent short-circuit, it is not to be assumed that practitioners will question the value of this legislation. There has already been a distinct tendency for insolvency work to diminish in volume, and most practising accountants are overwhelmed with professional duties arising out of the war with which they have to cope in the face of staffing difficulties. At the same time, it is important that the special part which the accountant can play in this type of work should be recognised. We are glad to note that the Lord Chancellor himself gave recognition to this. He urged that, where arrangements could be reached independently of the Liabilities Adjustment Officer, they should still be reached. "There is no ground," he said, "for fearing that private arrangements, where brought about with the help of skilful accountants or otherwise, are in any way discouraged. Our object is not to prevent agreements, but to promote them. Our object is merely to provide new machinery which we hope will greatly increase the number of agreements." As readers will appreciate, the type of debtor for whom this new procedure is primarily intended and the creditors of such a debtor are not likely to have invoked a professional accountant's assistance, even in the absence of the Bill. There will, we anticipate, remain a considerable number of cases where deeds of arrangement will be concluded without the assistance of the Liabilities Adjustment Officer—but these cases will be of the rather larger type in which the profession has mainly been interested.

There is one point in particular upon which we would like to be reassured. The Liabilities Adjustment Officer will not, in the normal case, be able himself to make an accountancy investigation into the affairs of a debtor. It is important, in our view, that he should be explicitly empowered to invoke the assistance of a professional accountant for this purpose, and we should like to see the Bill amended to that effect. The scale of fees for such work would naturally be appropriate to the circumstances. It is here, and in similar work such as the management of a debtor's business, that members of the profession should play their main part in the working of the new machinery. At the same time, it is to be hoped, especially in districts where the number of cases will involve only part-time work by the Liabilities Adjustment Officer, that the appointment to the office will often be made from among the ranks of practising accountants as well as from among solicitors, the other profession particularly interested in this class of work.

This is a war-time measure. It is to be hoped that after the war much of the procedure now being built up in this field, as in many others, will disappear, or at least will be considerably modified. No one would pretend that the law of bankruptcy and liquidation is perfect, but it must not be imagined that the Liabilities (War-time Adjustment) Bill necessarily points to the way in which post-war reform of this branch of the law will best be effected. The Bill meets the present situation as well as it could be met, but after the war the need will be for a revision of general insolvency law on quite different lines.

Wartime Developments in Auditing

By STANLEY W. ROWLAND, LL.B., F.C.A.

The accountancy profession in relation to its auditing work has been one of the first to feel in very decided fashion the impact of the war on its activities, for there has been at one and the same time a large increase in the number and variety of calls on its services and also an accentuation of the difficulty of finding really competent staff, which, even in the best of times, has been to some extent felt. Every auditor by this time must be deeply conscious of the many new problems with which he is confronted, and while the present article cannot hope to suggest novel expedients for escaping from difficulties, perhaps a good purpose will be served if the new problems can be looked squarely in the face.

It must be realised from the outset that the external conditions created by the war have not operated to change by one iota the scope and responsibilities of complete audits, and it seems to the present writer that the best the profession can hope to do is to concentrate on essentials and possibly to discard some of the refinements of method which, though useful in their time, may now be sacrificed without material risk.

In the view of the best judges it has always been advisable that on each recurring occasion of taking up an engagement a principal should, before the work is commenced, take an opportunity of examining the material and of interviewing the client. In present conditions this necessity seems to be accentuated. Amongst practitioners it is a truism to assert that an auditor's duty is to audit accounts prepared by directors but, in the board room, this truth is not always appreciated. It is now necessary that the auditor should take pains to convey to the understanding of directors the benefits which co-operation may confer on both parties. An interest thus created at as early a stage as possible is obviously likely to improve the workings of the internal check which must be the firm basis of every external audit.

In the present writer's view it is extremely unfortunate that the current of accounting development has clouded the thoughts of auditors with too many considerations which are purely legalistic; but in spite of this it remains true to say that the most important object of every audit is to secure that the published accounting statement shall convey in the best possible manner the nature and effect of the activities of the concern under audit. In the earlier historical stages it was necessary to concentrate on the correctness of book-keeping *qua* book-keeping, to produce a trial balance and thence to construct final accounts. There is a case for the serious consideration of a reversal of this traditional direction of procedure. Reasonable skill in double entry is now very usual amongst office staffs and, as a very important addition, mechanised devices commonly take up the arithmetical side of balancing. It therefore now seems easier than perhaps at one time it was for auditing processes to be analytical as distinct from synthetic. Our fathers

necessarily concentrated on the building up of a balance-sheet from scattered details: we can perhaps seize the advantages to be obtained from commencing an audit at the balance sheet, breaking down its figures into such degree of detail as may seem, in particular cases, reasonable and convenient.

The great questions to be asked of a balance sheet are two in number. There is first the query whether the recorded assets really exist and whether the valuations assigned are arrived at in accordance with correct accounting principle. On the other side of the balance sheet the investigation is less easy, for it is necessary to be satisfied that the items recorded as liabilities, under their several categories, are an exhaustive statement of the accountabilities which have arisen in consequence of trading operations.

Consideration of these two parallel lines of enquiry suggests the advisability of so framing the detailed figures supporting the balance sheet as to display the nature and extent of the movements which have occurred over the trading period. Thus, in respect of the fixed assets the important considerations are whether the gross additions can properly be admitted into the description of capital expenditure and whether the diminutions, whether by way of retiral or of depreciation, have been correctly stated. Incidentally, this investigation will throw a useful light on the manner in which capital resources have been locked up or released during the interval between one balance sheet date and another.

With regard to floating assets, the figures for debtors can be considered only in the light of the control accounts from which they spring, and it is suggested that the arrangement of these accounts in parallel columns which compare the items over a series of years furnishes a very useful means of envisaging the tendencies which are at work. Needless to say the details making up the total of debtors should be so framed as to show the age of each component item.

In these days the valuation of stock-in-trade is a matter requiring even more anxious attention than in the past, for it is necessary to ascertain, in a broad sense, how far increases are attributable to quantities and how far to increased prices. War conditions do not appear to have altered the principles of valuation, saving in the one respect that it is necessary to remember that price fluctuations may be more extreme and more liable to early reversal. The sheet anchor of auditing decisions appears still to be the maintenance of a constant principle of valuation from period to period.

It is on the liabilities side of the balance sheet that the auditor is most dependent on internal check as his safeguard. It is likely in present conditions that the number of unusual transactions will be greater and that it will consequently be more difficult to detect the omission of material items. Here the understanding and co-operation of executives is

essential, for the auditor is helpless unless material for his task is furnished to him.

There remains the broad and forbidding field of fraud in all its forms, and it must here be stated once again that the responsibility of auditors remains undiminished, whatever the difficulties of the present times. The fact may be regretted, but it must not be forgotten. There is a distinct danger that individual auditors may be inclined to "take a risk," but it is submitted that this temptation must be resisted. Wakefulness on the part of the watchdog is more necessary in the black-out than in the daylight hours; and in some respects commercial conditions do now resemble a black-out. For example, the prodigality with which expenditure must be incurred tends to increase the number of individual officers having control of cash and it is essential for the auditor to look into the system by which these holdings are brought to account; and the examination of system is perhaps more important than an extension of the area over which detailed audit is performed. Circumstances alter cases but, generally speaking, a thorough test of intelligently selected cases will throw a better light on the degree to which internal control has been exercised than an examination of single classes of items covering the whole number of accounting parties.

The expansion of certain classes of business produced by current conditions has probably increased the number of cases where several companies are controlled by the same parties in single offices. These

conditions always occasion anxiety on the part of the auditor, particularly where the several companies are not under a common audit. It is suggested that the inter-accounts between the several units should be subjected to comparison in detail, not merely by the aid of alleged transcriptions, but by inspection of the actual sets of books. Cases come to mind where the agreement of ultimate balances has concealed the existence of irregularities which would have been revealed by detailed cross check.

It will be apparent to the discerning reader that the comments made above perhaps betray a hankering after a radical change in British methods and conceptions of auditing. The stereotyped form of British company audit perhaps has its advantages; certainly it has had advantages in the past, but it may well be wondered whether in the future greater advantage may be taken of the specialised experience of the auditing profession by an adaptation of methods bringing them into closer accord with the practice which has been found advantageous in America. The independence of auditors from control of directors may be bought at too great a price. In Britain it has tended to throw many responsibilities on auditors which ought, arguably, to fall on directors. Perhaps one result of the reconsideration of auditing methods which the war has enforced will be to introduce to Britain different types of audit, directed to the special necessities of particular cases. This is not the place to enlarge this suggestion, but there is at least one writer who finds the prospect distinctly attractive.

The Budget

The Budgets of 1939 and 1940 (four in all) were severely criticised for their timidity. No such criticism can be levelled at the Budget proposals of 1941. Durable goods are not to cost us more, for new indirect taxation is conspicuously absent, but it is certain that the wherewithal to buy them will be difficult to find. Reduction in consumption is the main object of the Budget proposals. As was expected, the standard rate of income tax is increased by 1s. 6d. to 10s. in the £, but it was not generally anticipated that a similar amount would be added to the reduced rate, which is now higher than the standard rate had ever been until the present war. The reductions in the allowances are serious from the viewpoint of the individual—only £80 is allowed for

a single person, £140 for a married man, and one-tenth (maximum £150) for earned income. The exemption limit is lowered to £110. There has been some criticism of these changes on the grounds that relatively speaking the bachelor is let off too lightly; a view which has great point. Some 2,000,000 individuals will be paying tax for the first time, and it appears that many of them are not taking kindly to the idea. Instances have already occurred of refusals to work overtime on the grounds that it is not worth it for the net benefit which results. Unfortunately, the popular press has not made it clear that the new class of taxpayers will not bear 10s. in the £ or anything like it, as the following table shows:

Income, All Earned.	Single Man.		Married Man, No Children.		Married, One Child.		Married, Two Children.	
	Tax.	Effective Rate.	Tax.	Effective Rate.	Tax.	Effective Rate.	Tax.	Effective Rate.
£	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.
120	7 10 0	1 3	—	—	—	—	—	—
150	17 17 6	2 4½	—	—	—	—	—	—
200	32 10 0	3 3	13 0 0	1 3½	—	—	—	—
250	47 2 6	3 9	27 12 6	2 2½	11 7 6	0 11	—	—
300	66 2 6	4 5	42 5 0	2 10	26 0 0	1 9	9 15 0	0 8
350	88 12 6	5 1	58 12 6	3 4	40 12 6	2 4	24 7 6	1 4½
400	111 2 6	5 6½	81 2 6	4 0½	56 2 6	2 9½	39 0 0	1 11½

The facts which this table illustrates deserve more publicity. They are more telling than the maintenance of the allowance for children. Probably they would carry more weight, if generally appreciated, than the scheme of deferred savings. The latter is a new feature in British finances, and, like the allotment of bonus shares to workpeople, is not appreciated so much as it deserves. The scheme provides that the additional tax which the individual has to pay as a result of the reduction in the earned income and personal allowances is to be treated as a credit to be made available to him after the war in such manner as Parliament may determine, the idea being that it is then to be placed to his credit in the Post Office Savings Bank. The taxpayer will be notified of the amount of the credit by the Inspector of Taxes at the end of the year of assessment. The maximum amount for any individual is £65. No interest will be allowed until the credit becomes available after the war.

Presumably, the life assurance allowance will still operate as if the standard rate were 7s. in the £. Farmers whose farms have an assessable value over £300 are to be taxed under Schedule D; this dividing line is very arbitrary and will catch only few. Why the change cannot be made for all it is difficult to see. Estimated assessments would cover the small cases where accounts are not produced. We have no sympathy for the argument raised in some quarters that the business of farming is so complex—so are other businesses—and many farmers already keep accounts without undue difficulty. The tradition needs bringing up to date. Many farmers with smaller farms will be making profits which will still escape tax.

The additional allowance for obsolescence of plant, etc., given for E.P.T. purposes is to be extended to income tax and N.D.C.; relief for diminution of earned incomes is to continue; no deductions are to be allowed for any taxation purposes for payments by way of insurance or otherwise in respect of death or injury of employees from enemy action; and provision is to be made for adjusting the law to meet the case of businesses subject to a scheme for concentration of production among "nucleus" firms. This last provision is to be directed to relieving the nucleus concern from tax on any part of its profits paid to the displaced concern, which will be chargeable on such profits, and be treated as continuing. Minor amendments are to be made regarding the collection of tax under Schedule A where the landlord is assessable direct.

The Budget Resolution on E.P.T. is all-embracing. It provides that the extent and incidence of E.P.T. (for past and future chargeable accounting periods) shall be varied so as to give effect:

"(a) to amendments as to standard profits and the computation of capital, the computation of profits and losses, successions and amalgamations, the avoidance of tax, interconnected companies, chargeable accounting periods falling partly before and partly after the end of March, 1940, the relief to be given for deficiencies of profits and the relief to be given for Excess Profits Tax in parts of His Majesty's Dominions outside the United Kingdom;

"(b) to provisions relating to arrangements for concentrating industry or business in the hands of fewer persons; and

"(c) to provisions enabling persons liable to the tax to recover tax from persons who have received payments for services which have been disallowed under section 32 of the Finance Act, 1940."

The Chancellor evidently recognises the force of arguments against the 100 per cent. tax, but avers that he cannot afford to make any considerable changes.

The tax was designed primarily to take the profit out of war, and must continue to do so. But where increased profit arises from the extension and development of a business, involving the introduction of fresh capital, the allowance for new capital calls for review, and increases of capital and the capital of new businesses are to be computed by reference to the total capital employed, whether owned or borrowed, the interest on borrowed money being disallowed in computing profits, so that the business that borrows cheaply will reap the benefit of the difference between the statutory percentage on capital and the rate paid. That this will also apply to standard capital is evident, as it is to apply to the substituted standard. Financial concerns will not be included, as their borrowed money is in a different position. The minimum standard for working proprietors may be affected, as the increased capital will, in appropriate cases, help to lift it nearer the maximum of £2,500 per working proprietor. Concerns engaged in developing wasting assets—metal and oil producers—for the provision of munitions of war, are to have relief from April 1, 1940, for the loss of future profit entailed in the accelerated exhaustion of their assets. Not the least important point is the proposal to allow the recoupment of E.P.T. on directors' fees, etc., which are disallowed as unreasonable—reminiscent of a somewhat similar E.P.D. provision. It will remedy a hardship felt by some businesses with onerous service agreements.

E.P.T. as at present in force prohibits setting aside the usual reserves. This is to be met by treating 20 per cent. of the E.P.T. payable (at 100 per cent. rate) as a reserve to be made available to industry at the end of the war for the purposes of reconstruction, subject to such conditions as Parliament may then determine—conditions intended to assist industry to undertake the essential task of reconstruction and readjustment, and to reabsorb the mass of the nation as quickly as possible into profitable peacetime employment. The conditions the Chancellor has in mind are the continuance of the ban on bonus shares, steps to prevent the money from being dissipated on dividends, and generally to ensure that the money will be expended for suitable purposes, e.g., replacement of obsolete or unsatisfactory machinery by up-to-date machinery; the scrapping or adaptation to new uses of redundant installations, and, in the case of farmers, the improvement of the fertility of the land, and the promotion of good business. The amount repayable will be adjusted from time to time as deficiencies arise, so that only 20 per cent. of the net E.P.T. paid will be available; it will be treated as income for income tax purposes when repaid.

The Budget resolution promises to provide us with quite a spate of new legislation. The Chancellor said: "There are other matters in regard to which certain amendments of the E.P.T. law will be proposed . . . but they are minor in character . . ." A reference to the prevention of avoidance of tax is welcome—too many people ignored the warning given in 1939; the burden must be equitably shared.

Finally, N.D.C. is to be amended (for past and future chargeable accounting periods) so as to give effect to amendments as to the computation of profits and losses, and to provisions relating to arrangements for concentrating industry or business in the hands of fewer persons; and estate duty law is to provide that gifts to the Exchequer by the deceased in the year before his death are to be left out of account in computing duty.

Altogether, the Finance Bill promises to be interesting, and to provide the profession with more work, not excluding reopening computations, just when staffs are to be further depleted by the altered ages of reservation.

Accountancy as a Reserved Occupation

The revised Schedule of Reserved Occupations dated April 10, 1941, contains the following changes in the ages of reservation of accountants and audit assistants:

	Present Age of Reservation	Age of Reservation from Stage B
<i>Accountant</i>		
Accountant (including Cost and Works Accountant) with recognised professional qualifications (as specified in the Schedule) ...	25	30
Accountant (others) ...	30	35
<i>Clerical and Office Staff</i>		
Audit Assistant (with 10 years' experience in accounting work in a practising accountant's office) ...	25	30

NOTES

1. Date of Enlistment

The date at which Stage B comes into operation cannot now be stated exactly, but men de-reserved at Stage B will not, as a rule, be required to join their units before the middle of July, 1941. Accountants holding specified professional qualifications and audit assistants de-reserved at Stage B are those between 25 and 30 (subject to paragraph 2 of this note). A further announcement will doubtless be made as to the precise date when Stage B will become effective.

2. Reckoning of Age

A man's age for the purpose of the Schedule is his age at the date on which his age class was required to register under the National Service (Armed Forces) Act. Reservation at 30 (Stage B) means that a man who was 30 or over at the time when his age class was registered is regarded as reserved.

3. Deferment of Calling-up

The procedure to be followed by firms desiring deferment of the calling up of partners or employees who are claimed to be performing work of urgent national importance is as follows:

Application should be made on Form N.S.100 to the Comptroller of the Insurance and Companies Department, Board of Trade, Romney House, Tufton Street, London, S.W.1. The application should be accompanied by a letter setting forth in the case of each man in respect of whom the application is made:

- the number of audit and accountancy clerks employed on September 3, 1939.
- the number of those employed on September 3, 1939, now serving with H.M. Forces.
- the number of those employed on September 3, 1939, who have since joined Government Departments or otherwise left.
- the number of new members of the staff appointed since September 3, 1939, who are still employed.
- the total number now employed, including women clerks, showing those liable for enlistment in July, 1941, under the revised Schedule (Stage B).
- estimated net staff after Stage B is operative.
- the work of urgent national importance upon which the man concerned is engaged.
- what efforts have been or are being made to find a substitute.

Forms can be obtained from the Insurance and Companies Department, Board of Trade, and in due course from the Society's office.

The Board of Trade cannot deal with applications at present. These should be submitted after an announcement has been made as to the precise date when Stage B will become operative.

It is not possible to anticipate the outcome of such applications.

Lord Stamp—A Personal Tribute

I commend to readers the full statement of the extraordinary career and unique achievements of the late Lord Stamp published in *The Times* of April 18. He came into close contact with the Society of Incorporated Accountants when in 1919 he advised the Council on the reorganisation of the examination syllabus and accepted the position of Examiner in Economics and Statistics, occupying that office for many years. It was through him that the subjects of economics and statistics were introduced into our examination syllabus. The Council marked its great sense of indebtedness in 1924 by conferring upon him the Honorary Membership of the Society, a distinction only accorded six times in fifty-five years to persons other than Fellows of the Society.

The inspiration which he gave to the accountancy profession is evidenced in many issues of the *Incorporated Accountants' Journal*, and Lord Stamp added to his learning and wisdom a personal magnetism which was irresistible alike to old and young.

As I write I have before me an old portrait of Lord Stamp, a replica of the portrait which a number of his more intimate friends presented to him on October 8, 1925, at a private dinner at the Reform Club under the presidency of the Right Hon. Reginald

McKenna. This replica was presented to me by Lord Stamp as a memento of the occasion, and forms a treasured possession.

Four years later, under the presidency of Sir Thomas Keens, the Society gave a Reparations Dinner to Lord Stamp, then Sir Josiah Stamp, at Incorporated Accountants' Hall. The occasion was historic by reason of the brilliant speeches which were made and may be perused in the columns of the *Journal* for August of that year, but also by the presence of General Dawes, at that time newly appointed Ambassador of the United States of America to the Court of St. James's. It was on this occasion that Lord Stamp, in the course of his reference to the General and the Dawes Report, very happily quoted from Othello the words:—

"... I will wear my heart upon my sleeve
For daws to peck at."

Among the obiter dicta which characterised Stamp's speeches we shall not soon forget the delightful utterance at the Society's Liverpool Conference of 1921:—

"I do not suggest that accountants should be humble before men, but humble before facts."

It is true to say that some of Stamp's other utterances on that occasion were a bit too strong for the then editor of the *Incorporated Accountants' Journal*; but no one who knew Stamp closely could believe that in his paper he was making a "considered attack" upon the accountancy profession. He was in fact endeavouring to broaden the scope of the accountancy outlook and to show what economics could do for the accountant. At any rate no one can re-read the discussion which followed Stamp's paper without realising that it was one of the best discussions to which an accountancy Conference has ever listened.

The attention of all who met Lord Stamp or heard him speak was arrested by the rapid working of his versatile mind, his powers of concentration, and his ability to grasp the essentials of a new and complicated problem. Behind all that Lord Stamp did was the motive of public service and helpfulness, enriched by the spirit of friendship which actuated all his personal and public work. If I may use the language of the impressive and befitting memorial service at Westminster Abbey on April 23, 1941, truly the adventurous spirit of Lord Stamp sought to bless men by his service, among whom he was so naturally chosen to be a leader.

Apart from the more strictly professional aspects

of my subject, I would add one or two illustrations which indicate the character and charm of Lord Stamp's personality. For twenty years it has fallen to my lot as Chairman of the Governors of one of our public schools to obtain a speaker for the annual Speech Day. Among the distinguished persons who honoured the school, Lord Stamp was remarkable for his gift in holding the attention of some 800 boys. On one occasion after Lord Stamp had spoken for the regulation twenty minutes the boys—not naturally patient listeners—demanded an encore with emphatic cries of "We want Stamp." The headmaster still asserts it was the red-letter day among school speech days.

For some years Lord Stamp came down at Whitsuntide to stay for a few days at my Welsh cottage. In the evenings the clans gathered to hear the master talk, and whatever the subject, whether literature, art, astronomy, phrenology, the interest was so intense that no one wished to go home. To walk with him over the mountains was an opportunity of learning how keen was his interest in nature, but he could never pass a stream without suggesting that we remove our shoes and socks to cool our feet in the limpid stream.

He has left us, he has gone, but the influence of such a spirit cannot die. C. H. N.

TAXATION

Taxation Notes

E.P.T.—Working Proprietor

It appears that at last the Revenue are settling down to a less rigid insistence on the strict interpretation of the Acts regarding working proprietors. It is understood that, where an individual works in more than one business, the Board of Inland Revenue will normally regard him as a working proprietor in the business to which he gives the largest proportion of his working hours, provided (a) he is a proprietor in that business, (b) he has worked full-time in the business as a whole for over half the chargeable accounting period; and (c) over half the working hours have been devoted to the business in which he claims to be a working proprietor. In one case brought to our notice the individual, who was in partnership with his brother, was also in receipt of a salary of £500 a year from another business, although he worked only 90 days in that other business in the first accounting period of the partnership. The Revenue have now agreed to regard him as a working proprietor of the partnership.

It is satisfactory to learn that a reasonable compromise has been reached, otherwise it would have forced many individuals to give up separate appointments, often to the national disadvantage, in order to adjust the minimum standard. For example, in the case mentioned, the partner would have been at least tempted to give up his post (which was of considerable national importance), as by so doing, at the cost of losing £500 personally, he and his brother would gain £1,500.

Farm Accounts—Valuation of Stock

It is customary to value live stock and crops produced on the farm at market price, less a deduction for cost of marketing. Hitherto this deduction has normally been 5 per cent., the rate recommended in the Ministry of Agriculture Leaflet No. 26. It is suggested that this rate should now be increased; what was a reasonable deduc-

tion in 1894 or 1924 is not necessarily reasonable in 1941. We invite our readers to let us have their views on the point, together with their experiences in such cases.

War Damage Act, 1941

It is no longer sufficient to refer to the Finance Acts for legislation on income tax; it is necessary to view other Acts with suspicion. The following are points arising out of the War Damage Act:

- (a) Interest allowed on contributions paid in advance is assessable under Case III of Schedule D (s. 32 (3)).
- (b) Contributions and premiums are to be treated for all purposes as outgoings of a capital nature (s. 82).
- (c) No sum is to be deducted in computing the amount of the profits or gains of any person for any purpose of the Income Tax Acts or the profits of any person for the purposes of N.D.C. or E.P.T., and no sum is to be included in computing management expenses under section 33, Income Tax Act, 1918, or section 26, Finance Act, 1922, or in a maintenance claim under Rule 8 of No. V, Schedule A, in respect of:
 - (i) any payment made in or towards the discharge of any liability imposed on the person under Part I of the Act (buildings, etc.) as, or as a mortgagee of, a direct or indirect contributor;
 - (ii) any premium payable under a policy issued under either of the schemes operated under Part II (the business scheme and the private chattels scheme); or
 - (iii) any expenditure on repairing or otherwise making good war damage in so far as he is entitled to a payment in respect of the damage by virtue of the provisions of the Act or of a policy issued under either scheme (s. 84).

Dominion Income Tax Relief

With taxation at its present level it is necessary to ensure that relief is claimed wherever possible. A taxpayer in receipt of income from some other part of the Empire must, therefore, review carefully the possi-

bilities of claiming relief. It will be remembered that relief is given on doubly taxed income at the Dominion rate of tax or half the effective rate of United Kingdom tax, whichever is the lower, with special rules for income from Eire.

Illustration.

For 1940/41 a taxpayer had the following income:—

	£	s.	d.
Salary (Sch. E assessment)	600	0	0
House (" A ")	40	0	0
United Kingdom dividends (gross amount) ...	2,000	0	0
Dividend from Eire, taxed in Eire at 6s. 6d. (gross amount)	400	0	0
Dividend paid direct from Dominion A company (Class V assessment—Dominion rate 5s.)	200	0	0
Dividend from Dominion B company paid through agent in the United Kingdom:			
Amount of dividend	400	0	0
Less U.K. tax at 5s. 2d. on gross amount	124	0	0
(D.I.T.R. at 3s. 4d.)			
Net dividend	276	0	0
He paid mortgage interest (gross amount)	50	0	0
And Bank Interest	30	0	0
For 1939-40 his statutory income was	3,500	0	0

COMPUTATION, 1940/41

	£	s.	d.	Tax	£	s.	d.
Schedule E assessment	600	0	0				
" A "	40	0	0				
" D, Case V—Dominion ...	200	0	0				
" " " Eire	400	0	0				
Dividends taxed at source—U.K. ...	2,000	0	0	850	0	0	
" " " Dom.	480	0	0	124	0	0	
	3,720	0	0	974	0	0	
Less Mortgage intst.	50	0	0	21	5	0	
" Bank interest	30	0	0	80	0	0	
	3,640	0	0	952	15	0	
Less Allowances:							
Earned income	100	0	0				
Personal (married)	170	0	0				
Two children	100	0	0				
	370	0	0				
	3,270	0	0				
£165 at 5s.	41	5	0				
£3,105 at 8s. 6d.	1,319	12	6				
	1,360	17	6				

Effective Rate:

Income Tax	1360-875	=	·41617
	3270		
Sur-tax	187·5	=	·05357
	3500		
	46974		

Say 9s. 4½d.

Brought forward	£1,360	17	6	£952	15	0
D.I.T.R. Dom. A Co.						
£200 at 4s. 8½d.	46	19	7			
D.I.T.R. Dom. B Co.						
£480 at 3s. 4d.	80	0	0			
	126	19	7			
Life Assurance Relief:						
£150 at 3s. 6d.	26	5	0			
				153	4	7
				1,207	12	11
Tax payable				£254	17	11

The tax deducted in Eire will be reclaimed; election may be made for it to be paid to the U.K. Revenue on account of British tax.

Assessments:	£	s.	d.	£	s.	d.
Schedule E	600	0	0			
Less Allowances	370	0	0			
	230	0	0			
£165 at 5s.	41	5	0			
£65 at 8s. 6d.	27	12	6			
	68	17	6			
Less Life Assurance Relief ...	26	5	0			
	42	12	6			
Bank Interest, £30 at 8s. 6d. ...	12	15	0			
				29	17	6
Schedule A, £40 at 8s. 6d.				17	0	0
Schedule D, Case V						
Dominion £200 at 8s. 6d. ...	85	0	0			
Less D.I.T.R.	46	19	7			
	38	0	5			
Eire £400 at 8s. 6d.	170	0	0			
	£254	17	11			

No adjustment arises on the dividend received through the agent for Dominion B company, as the Dominion rate of tax is appropriate for relief.

Claims under Section 11, Finance (No. 2) Act, 1939

An accountant derived part of his income from directorships (assessed under Schedule E) and part from general practice. During 1939-40 the directorships ceased and the assessments on the fees were reduced to the actual income, as provided by sec. 45 (5), Finance Act, 1927. The total of the actual earned income for 1939-40 was more than one-fifth below the earned income of the preceding year, but not quite one-fifth below the aggregate of (i) the assessment on the practice earnings on the preceding year's basis, and (ii) the assessments under Schedule E as reduced. On application to the Special Commissioners, it was decided that the amount of the Schedule E assessments as reduced under sec. 45 (5) must be brought into account in computing the "earned income as assessed," and not the amounts as originally assessed. As a result, the relief in this case was given on the marginal basis, instead of on the basis of the reduction in the earnings assessed under Schedule D.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law.

Income tax—Hire-purchase business transferred to company—Back debts including outstanding hire-purchase agreements reserved by vendor—Whether vendor setting up new trade.

In *Parker v. Batty* (K.B.D., March 18, 1941, T.R.1) the facts were very similar to those in *Southern v.*

Cohen's Executors (1940, 19 A.T.C. 358), noted in our issues of May and December, 1940. Prior to 1936, the appellant both manufactured and dealt in musical instruments and had a number of retail shops. He then ceased to manufacture, but continued to deal in pianos,

(Continued on page 139.)

Budget Estimates, 1941-42

ESTIMATED EFFECT OF CHANGES IN TAXATION

	Estimate 1941-42.	Estimate in a full year.		Estimate 1941-42.	Estimate in a full year.
INLAND REVENUE			Excess Profits Tax—		
<i>Income Tax—</i>			The effect of the changes proposed has been taken into account in the estimate of the yield of the tax ...		
Increase of 1s. 6d. in the standard rate ...	+ 80,000,000	+ 88,000,000	TOTAL INLAND REVENUE ...		
Increase of 1s. 6d. in the reduced rate ...	+ 16,000,000	+ 37,000,000		+ 151,000,000	+ 253,000,000
Reduction in the allowance for Earned Income ...	+ 21,000,000	+ 50,000,000	CUSTOMS AND EXCISE—		
Reduction in the personal allowances to taxpayers and of the exemption limit to £110 ...	+ 33,000,000	+ 75,000,000	EXCISE—		
Alteration of the basis of assessment of farming profits ...	+ 1,000,000	+ 3,000,000	Medicines ...	600,000	800,000
	+ 151,000,000	+ 253,000,000	Medicines: licence duty ...	40,000	40,000
			Total Excise ...	640,000	840,000
			TOTAL ...	+ 150,360,000	+ 252,160,000

A.—ORDINARY REVENUE AND EXPENDITURE

ESTIMATED REVENUE		ESTIMATED EXPENDITURE	
<i>Inland Revenue—</i>		<i>Interest and Management of National Debt ...</i>	
Income Tax ...	756,000,000	Payments to Northern Ireland Exchequer (including net share of reserved taxes) ...	255,000,000
Sur-tax ...	80,000,000	Miscellaneous Consolidated Fund Services ...	9,200,000
Estate Duties ...	82,000,000		7,800,000
Stamps ...	14,000,000	Total ...	272,000,000
National Defence Contribution ...	210,000,000	<i>Supply Services—</i>	
Excess Profits Tax ...		<i>Defence—</i>	
Other Inland Revenue Duties ...	1,000,000	Token Votes ...	
Total Inland Revenue ...	1,143,000,000	<i>Civil—</i>	
<i>Customs and Excise—</i>		I. Central Government and Finance ...	
Customs ...	310,700,000	II. Foreign and Imperial ...	
Excise ...	266,660,000	III. Home Department, Law and Justice ...	
Total Customs and Excise ...	577,360,000	IV. Education ...	
Motor Vehicle Duties ...	39,000,000	V. Health, Labour, Insurance (including Old Age and Widows Pensions) ...	
TOTAL RECEIPTS FROM TAXES ...	1,759,360,000	VI. Trade, Industry and Transport ...	
Post Office net receipt ...	3,300,000	VII. Works, Stationery, etc. ...	
Crown Lands ...	1,100,000	VIII. War Pensions, 1914-18, and Civil Pensions ...	
Receipts from Sundry Loans ...	2,600,000	IX. Exchequer Contributions to Local Revenues ...	
Miscellaneous ...	20,000,000	Unclassified Services ...	
TOTAL REVENUE ...	1,786,360,000	418,733,000	
EXCESS OF EXPENDITURE OVER REVENUE ...		Votes of Credit ...	
	2,420,597,000	3,500,000,000†	
	4,206,957,000	<i>Tax Collection—</i>	
		Customs and Excise and Inland Revenue Votes (including Pensions, £1,375,000) ...	
		16,220,000	
		3,934,957,000	
		TOTAL EXPENDITURE ...	
		4,206,957,000	

* Substantive cost in 1941 to be met from Votes of Credit.

† Excluding value of supplies from the United States of America under the Lease and Lend Act and payments under existing orders in that country.

B.—SELF-BALANCING REVENUE AND EXPENDITURE

Revenue required to meet Post Office expenditure* (£93,746,000, including Pensions £5,890,090) and vote or Broadcasting under Class IV of the Civil Estimates (£5,600,000) ...	99,346,000
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* Excluding £4,970,000 estimated to be required from Votes of Credit.

etc., on hire-purchase. In his accounts, he regarded these contracts as not producing profit until the cost to him had been defrayed, everything afterwards being treated as profit. At the end of March, 1936, he formed a company to take over his business, but from the sale the book debts were excluded, including in the term everything not received under the hire-purchase agreements, whether due or not. On April 5, 1936, the uncompleted agreements numbered 5,784, whilst at April 5, 1939, there were still 1,285 open.

The Special Commissioners had held that on April 6, 1936, he had set up and commenced a trade of carrying through uncompleted and outstanding hire-purchase agreements.

For the appellant, it was argued that, following *Helby v. Matthews* (1895, A.C. 471), the agreements were really contracts of sale and all that remained to be done was the mere collection of the sums due under the contracts. Lawrence, J., in affirming the Special Commissioners' decision, declared that the principle laid down in *Bennett v. Ogston* (1930, 15 T.C. 374) applied. The sums due under the contracts only became due after the sale of the business. He also held that it was not true to say that the substance of the business carried on by appellant was the selling of pianos. "It was a business of hiring them out on hire-purchase terms." There was ample evidence for the Commissioners' finding, because what Mr. Parker was proposing to do was, in its nature, a trading activity.

Hire-purchase contracts fall into recognised legal classes; and the judge's finding as to the substance of the business was based, no doubt, upon the terms of the contract form used. It is probable, however, that so long as the business was that of collecting amounts not due at the date of the transfer, the decision would have been the same even if the form of the contracts had been different.

Income tax—Professional footballers—Benefit payments—Whether liable to assessment.

In *Feebary v. Abbott, Corbutt v. Duff, Dale v. Duff* (K.B.D., March 26, 1941, T.R.3) the appellants were all professional football players who had been assessed under Schedule E and, in one case, under Schedule D in respect of "benefits." It was contended that the sums involved were gifts and not made in pursuance of any formal agreement such as is provided by Regulation 61 of the Football League, and that they were exempt by reason of the principle established in *Reed v. Seymour* (1927, A.C. 554, 11 T.C. 625) and *Cooper v. Blakiston* (1909, A.C. 104, 5 T.C. 343), viz., that if the payment, though voluntary, is remuneration for the office or employment, it is taxable; but if it is personal, in the sense that it is given to the person not as a holder of office or employment but as a personal testimonial, it is not. The Commissioners had found in favour of the Revenue; and Lawrence, J., affirmed their decision.

He said it was obvious that the line was often difficult to draw because personal qualities would affect the amounts of such gifts. But, in the present cases, the payments although not obligatory, were, as the Football League Regulations indicated, expected, generally asked for, and usually accorded. They were made after a certain number of years of continuous service and were stated in the Regulations to be for loyal and meritorious services, and, in special circumstances, to be in lieu of a presumed accrued share of benefits. In view of the Regulations and of the facts as stated in the special cases, it was impossible to hold that the sums in question were not paid in respect of, and as remuneration for, the appellants' employment. The only difference between the cases and *Davis v. Harrison*

(1927, 11 T.C. 707) was that there was in the latter case a formal agreement under Regulation 61, which had, however, not been acted upon. The point whether the payments were wages or perquisites or other profits he dismissed as of no importance.

Income tax—Commission for introduction of one company to another—Cancellation of commission agreement for lump sum—Whether trade receipt.

In *Shove v. Dura Manufacturing Co., Ltd.* (K.B.D., March 27, 1941, T.R. 5) the respondent company carried on business as steel polishers. It introduced another company, known as Motor (Components), Birmingham, Ltd., to Rolls-Royce, Ltd., and commission was paid to it on all the aero-valves supplied to the last-named. In February, 1938, the commission agreement was cancelled for £1,500 paid to the respondent company, which sum was about three times the average of the sums paid to it in the preceding years. The Commissioners had found that the £1,500 was not taxable; but this was reversed by Lawrence, J.

He said that it was argued that the contract cancelled was not made in the ordinary course of business, as in *Short Bros. v. Commissioners of Inland Revenue* (1927, 12 T.C. 955) and *Commissioners of Inland Revenue v. Northfleet Coal & Ballast Co., Ltd.* (12 T.C. 1102); but it was not suggested that it was *ultra vires* or that the sums received annually were not revenue receipts. It was, however, said that they should have been assessed under Case VI and not under Case I, and that, therefore, different considerations applied. He held that any *intra vires* contract which is of a revenue nature is "in the ordinary course of business" and thought that this term was used in some of the cases to connote contracts of a trading nature not forming the bulk of the trade. "If the proceeds of a contract are of a revenue nature I cannot think that it makes any difference whether the contract is usual or not." If the contracts were of a capital nature then their realisation would produce capital receipts. But a contract did not become a capital asset because it was a contract in a new or unusual line of business. There was nothing of a capital nature in the contract. No money was spent to secure it. No capital asset was acquired to carry it on. Its cancellation was only an ordinary method of modifying and realising the profit to be derived from it.

He was not able to apply to the case certain *dicta* of the Court of Session in *Kelsall Parsons & Co., Ltd. v. Commissioners of Inland Revenue* (1938, 21 T.C. 608), which suggested that if the contract had more than one year to run the sum received for cancellation might be capital. Apart from other considerations, the judges in that case were dealing with a different sort of contract, namely, an agency contract.

The general principle regarding compensation for cancelled contracts as laid down in the *Van den Bergh* case (1935, A.C. 431, 19 T.C. 390) is that each case must be governed by its own facts; and the value of cases like the present is that they afford guidance as to the facts which govern.

Income tax—Sale of property to company—Profit lent to company—Trading receipt—Valuation of debt.

The issue in *Lock v. Jones* (K.B.D., March 20, 1941, T.R. 7) arose out of a deal in property by a builder and property dealer. In 1934 appellant contracted to buy property for £37,500. He then formed a company with two other persons to exploit it, with a capital of £100, each of the three parties lending £5,000 to the company. The appellant then sold the property to

the company for £50,000, the profit of £12,500 being treated as a loan by him to the latter, repayable as might be agreed. This sum was included in an assessment upon him, being treated as a trading receipt of the year of sale to the company although up to the date of the appeal the company had failed to effect a sale of the property. The Commissioners had found that it had not been proved that the value of the debt was less than its nominal amount; and Lawrence, J., endorsed their decision.

The appellant relied upon *John Cronk & Sons, Ltd. v. Harrison* (1937, A.C. 185, 20 T.C. 612), a case arising out of the financing of housing by the building societies. There the final decision of the House of Lords was that the case should go back to the Commissioners to value the debt and, if they were unable to value it, it should not be brought in as a trading receipt for the year in question. In that case, Lord Thankerton had expressed preference for leaving out the debt until paid. It was held, however, that here the circumstances were different and that the difficulties of valuation present in *Cronk's* case did not exist.

The following passage from the judgment deserves *verbatim* quotation:—

"It is conceded that authorities, to which my attention was not specifically drawn, lay down that it is a general rule that each year must be treated by itself, and debts must be valued; that prospective losses are not taken into account; and that, in strictness, if, after a debt has been valued, it is subsequently realised at a higher figure, then the valuation excess is to be disregarded."

The valuation of the book debts of a trader is a two-edged business; and, in the writer's opinion, it would be a desirable reform for differences between valuations and realisations to be made trading profits or losses as at the dates of the latter. Upon the whole, the strict position would seem to be at present in favour of the Revenue. But this fact is not normally taken advantage of.

AVOIDANCE OF SURTAX

Sir Robert Dummett, the Chief Metropolitan Magistrate, dismissed, at Bow Street Police Court on April 17, a summons alleging a conspiracy to defraud the Revenue against Stanley Albinus Spofforth, Chartered and Incorporated Accountant, partner in Spofforth & Prince, Bush House, W.C., and in Spofforth & Stubbs at Worthing, and Harold Artis White, managing director of the British Essence Co., Ltd., Kennington Lane, S.E.

No order was made as to costs.

Mr. L. A. Byrne, who conducted the case on behalf of the Director of Public Prosecutions, said that White's tax affairs had been managed by Spofforth. For many years some taxpayers had formed private companies to which they transferred their businesses or investments, or covenanted by deed to make annual payments of the whole, or part, of their income. The company then received the taxpayer's income, and the company, although liable to income tax at the standard rate, was not liable to surtax. If the company refrained from distributing dividends then the cumulative profits were not the beneficial income of any individual, and hence attracted no surtax. At the same time the taxpayer, when he chose, could divert to himself the accumulated income in the form of capital and enjoy the income in a non-taxable form.

Since 1922 legislation had been passed to deal with the practice, but the ingenuity of taxpayers and their advisers in devising schemes for evading legislation

appeared to be almost inexhaustible. There was nothing illegal in such schemes if they were carried out by real transactions and not mere pretences.

The case for the prosecution, Mr. Byrne went on, was that a scheme devised to relieve White of certain tax liability was a mere sham. A company called Britesco Investment Trust Co., Ltd., was registered in 1936. White made advances to the company totalling more than £90,000. The company bought an annuity from White of £5,000, payable over seven years. They also bought for £1,550 land at Rustington on which a house was being erected for White. Three clerks in Spofforth's office at Worthing later subscribed to shares in Britesco out of money which White was to lend them, and they were to receive dividends of £1,000 each, which they were to pass on to White. The result of that scheme would have been that the Revenue would be deprived of surtax on £3,000.

Sir Robert Dummett: It sounds ingenious, but fairly simple.

Mr. Ernest Edwin Cave, managing clerk to Spofforth and Prince, said that the three clerks in Spofforth's office, Burn, Willmott and Cannons, were each allotted 10 Block B shares in Britesco Investment Trust Co. on March 30, 1938. On April 2, 1938, a dividend of £100 per share was declared. The position was that unless, before April 5, 1938, the company had distributed to its members in such a manner as to render the amount distributed liable to be included in the statements to be made by members of the company of their total income for the purpose of surtax, the Special Commissioners could have directed that the whole of the company's income should be treated as the income of its members. The company drew the cheques for the amount of the dividends and the cheques were paid by the bank in all three cases. Before this arrangement was made, Spofforth discussed with him the lines on which it was suggested it should be carried out. It was a variation of an arrangement which had come before the High Court in the case of *Bilsland v. Commissioners of Inland Revenue*. The case was also put before counsel.

In cross-examination by Mr. Cartwright Sharp, K.C. (for White), Mr. Cave said he did not think there was anything in the arrangement which was not perfectly straightforward. Spofforth told him the object was the legal avoidance of surtax. Spofforth and White both had the reputation of being honourable and straightforward men. Spofforth also had the reputation of being a highly skilled accountant. He had published articles and given lectures on how, through the medium of companies, to arrange so as to avoid the incidence of taxation. He had constantly consulted counsel, and it was only after counsel's opinion had been taken that this arrangement was made. If it had gone through it would have saved White £100. He was a rich man.

Mr. Charles Henderson Hodge, manager of the Camberwell Green branch of the Westminster Bank, gave details of White's account. He said he bore an excellent reputation, and in the spring of 1938 had many thousands of pounds' worth of securities with the bank.

Mr. J. Millard Tucker, K.C., representing Spofforth, submitted that the scheme did not contravene any tax legislation, and that there was no case to go before a jury. After 1909, when super-tax was introduced, he said, various methods, quite legitimate, were adopted by taxpayers and their advisers to avoid payment. A common method was to transfer investments to a company specially formed for the purpose. Since 1922, when the avoidance of surtax became more pronounced, legislation had, from time to time, been introduced to

stop the loopholes. The last enactment was in 1939, with the result that those now wishing to avoid surtax would be better advised not to make the attempt. The scheme now in question was devised and adopted in 1938, before the passing of legislation to deal with the points raised. All the provisions of the Companies Acts were strictly complied with.

Mr. Cartwright Sharp said he wished to make a submission on different lines in regard to White, and if necessary to call witnesses.

The hearing had been adjourned to enable the magistrate to consider Mr. Tucker's submission.

Without calling on Mr. Cartwright Sharp, Sir Robert Dummett said he had decided to dismiss the summons; giving his considered judgment, he said: "The evidence for the prosecution shows that three clerks in Spofforth's office who were not in a position to pay surtax applied for shares in White's one-man company, Britesco Investment Trust Co., Ltd. That company was formed solely for the purpose of avoiding surtax. These three clerks paid the proper amount to the company for those shares. The shares were duly allotted, and the clerks became members of the company. They received dividends, properly and legally made and declared by the company, and paid by cheques to those three persons. No doubt this was all done within the proper time.

Mr. Byrne has said that every stage in the transactions was legal, but that the transactions were all sham. The money to buy the shares was White's money. The agreement was that the loan by White was to be repaid out of dividends, and the whole thing, Mr. Byrne contended, was a mere pretext and a sham for the purpose of avoiding payment of surtax—a deceit and a fraud. Well, was it? I have listened carefully to the able argument addressed to me by Mr. Tucker on behalf of Spofforth, and it seems to me that White, who no doubt has been advised throughout by Spofforth, ran a considerable risk of losing his shares. Supposing one of the clerks had declined to carry out the bargain, or supposing he had gone bankrupt? Mr. Byrne found considerable difficulty in dealing with that position. He said, rather in avoidance of the difficulty that would have arisen, that these shares would become the property of the trustee in bankruptcy. The clerks, he said, were never beneficial owners of the dividends. Well, I do not agree. I think Mr. Tucker has satisfied me, on the case quoted, that they were beneficial owners. If that is so, I think the result is that the pursuit of these two men by criminal process is misconceived, and I dismiss the summons."

When Mr. Tucker asked for costs, Sir Robert remarked: "I think you should be well content."

Limitation of Supplies

[CONTRIBUTED]

The "Limitation of Supplies" scheme has already played an outstanding part in conserving resources and assisting the mobilisation of industry for war purposes. The accountancy profession is assigned the essential role of giving independent professional examination to the periodical returns required to be submitted by traders. On this depends very largely the correct appreciation by traders of the requirements of the Orders, and the protection of the majority, by whom the restrictions are scrupulously observed.

The scheme is administered under two parallel series of Orders, one covering woven textile goods and the other the products of a wide range of consumer-goods industries. Many practitioners have now had experience of the returns required under the first Orders in each series—the Piece-Goods and Made-up Goods (Cotton, Rayon and Linen) Order, 1940, which was in force from April 16 to September 30, 1940, and the Limitation of Supplies (Miscellaneous) Order, 1940, which was in force from June 6 to November 30, 1940. Succeeding Orders have extended the scope of the control and drastically increased the severity of limitation, and have also adapted the structure of the scheme in order that changing conditions should be met and the defects revealed by experience should be remedied.

The Piece-Goods and Made-up Goods (Cotton, Rayon and Linen) Order, 1940

The Piece-Goods and Made-up Goods Order applied to textile goods, the trade in which was organised in the main in three horizontal strata, comprising manufacturers, wholesalers and retailers, while the demand fell under the three main heads, export orders, Government requirements and civilian needs. The Order imposed on wholesalers the obligation to limit the supplies reaching retailers. Freedom to meet export and Government requirements was achieved by express exceptions from the control. Unrestricted trade was allowed between manufacturers and wholesalers and from one wholesaler to another, and wholesalers were

left free to decide in what proportions the restricted supplies should be distributed between individual customers.

While control operated generally at the wholesale-to-retail stage, it was necessary in practice to compile a register (known as The Cotton, Rayon and Linen Register) to identify more precisely those traders who were obliged to limit their outward deliveries and were themselves to be permitted unrestricted supplies. In general "makers-up" were left with retailers and others to purchase their piece-goods in the restricted market. The option of registration was, however, extended to those makers-up who were producing goods for export, and at a later date certain mercantile agents engaged in the export trade were also required to register.

A short period of operation was desirable in view of the uncertainty of the future under war conditions and the danger that the bulk of the permitted supplies might flow out during the early stages, resulting in a standstill and undue accentuation of scarcity conditions in the latter part of the period. But registration had to be completed and standards calculated, and the period of 5½ months was probably chosen as the minimum considered practicable.

The selection of the basis of measurement, whether by quantities or by value, also raised conflicting considerations. A "value" basis would be more acceptable from the trader's point of view, since that is the basis on which most of his records are compiled. On the other hand, the price factor would complicate the fixing of restriction rates and might well tend to encourage trade in the cheaper lines. It is probable that in April, 1940, these lines, the cheap fabrics, were experiencing the main pressure of the Government's textile requirements. The Order provided that piece-goods should be restricted by reference to square yardage and made-up goods according to the number of articles in each class.

The process of registration revealed certain defects in the original provisions. In particular, no allowance had been made for the fact that wholesalers might also

be engaged in making-up or retail trade, or that manufacturers of controlled goods might also be using those goods to produce other goods which were not controlled. No distinction was drawn between the various types of civilian requirements, except in so far as additional supplies might be authorised under licence. It is reasonable to suppose that the trader who, having used up his quota in non-essential trade, obtained orders of an essential nature, e.g., for hospital requirements, might be granted a licence for "extra-quota" supplies, while the trader who gave preference to hospital orders, and found his quota largely exhausted thereby, might well have difficulty in obtaining a licence to fulfil non-essential orders, and would therefore suffer the full effect of the restrictions.

The Limitation of Supplies (Miscellaneous) Order, 1940

Before any extensive experience could have been gained of the limitation of textile supplies, the parallel scheme covering many kinds of consumer goods was introduced on June 6, 1940, by the Limitation of Supplies (Miscellaneous) Order, 1940. This Order followed the same general lines as the Piece-Goods and Made-up Goods Order, but restriction was imposed by reference to value instead of quantities, and the goods controlled covered a much wider range and were classified in seventeen different categories. This meant in effect the compilation of seventeen separate registers (the whole being called the Home Trade Register). The registration of a trader under the Miscellaneous Order was effective only in relation to the particular class or classes of goods for which he was registered and was, of course, entirely distinct from the registration under the Piece-Goods and Made-up Goods Order. The standard and restriction periods were respectively June 1 to November 30, 1939, and June 6 to November 30, 1940.

The "mixed business," that is to say, the manufacturer or wholesaler engaged also in retailing, was given a measure of relief by an amendment introduced on July 23, 1940, and incorporated in all subsequent Orders. This provided that where a registered trader had at all material times carried on a business or department the trade of which, taken by itself, would not have necessitated his registration, he might treat that business or department as though it were an unregistered customer of which he was the sole supplier. This meant that the restriction would be lifted from his retail sales and imposed instead on the goods passing into his retail department, but his outside suppliers would be unaffected and would treat all goods delivered to him as supplied to a registered person irrespective of the department for which they were destined. This procedure relieved the suppliers of having to dissect the standard period figures. A condition of applying this concession was that separate records should have been maintained at all material times for each of the businesses or departments, and that the consent of the Board of Trade should be obtained.

Another amendment which has been incorporated in all subsequent Orders and has attracted some attention recently concerned the position of a registered trader who appeared as an agent in a transaction between another registered person and an unregistered customer. There might then be some doubt which of the two registered traders was responsible for applying restriction. An amendment on June 19, 1940, provided that if the supplier invoiced them to the registered agent instead of to the unregistered customer, the agent would be deemed to have been supplied with the goods and would be deemed in turn to supply them when they were delivered to, or to the order of, the customer. Thus,

the transaction had to count against the quota of the agent instead of against that of the real supplier who, in dealing with other registered persons, need not enquire whether they were acting as agent or principal.

The Limitation of Supplies (Woven Textiles) Order, 1940

The Limitation of Supplies (Woven Textiles) Order, 1940, succeeded the Piece-Goods and Made-up Goods Order on October 1, 1940, and was operative for the six months to March 31, 1941, with the six months to March 31, 1940, as a standard period. This Order incorporated the Miscellaneous Order provision for the relief of "mixed businesses," and provided that controlled goods used by a registered trader in producing non-controlled goods (other than goods specifically mentioned in the First Schedule to the Order) must be counted as supplied to an unregistered person as and when so used.

More important, however, than the "mixed business" provisions were those designed to release from restriction goods required for certain essential civilian purposes. These provisions took three main forms: first, specific exception from control of a wide range of goods which were in themselves of an essential character (e.g., approved glass protection fabric, blackout material, etc.); second, provision for unrestricted supplies to certain "special producers" and privileged consumers; and, finally, extension of the option of registration to traders engaged mainly in supplying the latter.

The privileged consumers (hospitals, local authorities and other organisations engaged in work of national importance) were identified specifically in the Third Schedule to the Order, but the "special producers" (manufacturers engaged in the production of goods listed in the First Schedule to the Order) were required to identify themselves by serving notices on their suppliers of textiles before a certain date and furnishing the Board of Trade with a copy of the first notice so served. If a manufacturer of goods in the First Schedule chose to identify himself as a "special producer" and complied correctly with the requirements as to service of notices on his suppliers, he became entitled to purchase controlled textiles and use them in his production of "First Schedule" goods without restriction. On the other hand, he was prohibited from using the controlled goods for any other purpose or supplying them as such. In short, he acquired a status similar to that of a registered trader with no quota for the supply of controlled goods.

The goods which were listed in the First Schedule, and in the production of which textiles could in consequence be used without restriction, comprised not only non-controlled textile and other products of an essential character (e.g., batteries, insulation tape, stretchers, etc.), but also certain goods (e.g., mattresses) which were specifically excepted from control under the Woven Textiles Order on the grounds that they could be controlled more conveniently under the Miscellaneous Order. (It may be observed in passing that other goods (e.g., shopping bags), excepted from control under the Woven Textiles Order for the same reason, were not included in the First Schedule and in consequence came under double limitation, the textiles used in their production being restricted under the Woven Textiles Order while the finished products came as from December 1, 1940, within the scope of the "Miscellaneous" control.)

In view of the substantial volume of trade released from control by the foregoing provisions and of the increasing need for economy in the use of raw material and labour and in the consumption of the manufactured

stocks, the amount of the quota for the trade remaining under control was substantially reduced, the percentage for cotton goods, for example, being fixed at 37½ as compared with 75 per cent. under the Piece-Goods and Made-up Goods Order.

Other notable changes were the requirement that cotton goods and rayon goods should be restricted separately instead of together, the compilation of a new Register—the Limitation of Supplies (Woven Textiles) Register—in place of the original Cotton, Rayon and Linen Register, a provision for the transfer of quotas and the inclusion as from October 15, 1940, of piece-goods and made-up goods of silk.

The Limitation of Supplies (Miscellaneous) (No. 5) Order, 1940

On December 1, 1940, the Limitation of Supplies (Miscellaneous) Order was succeeded by the Limitation of Supplies (Miscellaneous) (No. 5) Order, 1940. This Order, which remains in force until May 31, 1941, with a standard period from December 1, 1939, to May 31, 1940, followed fairly closely the lines of its predecessor but as in the case of the Limitation of Supplies (Woven Textiles) Order included provisions designed to facilitate satisfaction of certain essential civilian requirements. The Third Schedule to the Order contained a list of privileged consumers who might receive unrestricted supplies of goods of the classes mentioned against their respective names; and the option of registration was extended to traders engaged mainly in supplying such goods to those consumers.

Perhaps the salient feature of the Order was the provision for selective restriction of certain kinds of goods forming part only of a given class. In one case, that of hose and half-hose in class 3, the provision took the form of a subdivision of the class itself into two categories, the supply of the goods in each category being then subject to separate limitation. This, however, involved a further dissection of standard period figures and has added to the trader's already heavy burden of clerical work. In other cases the method followed was to leave the basis of the standard calculation undisturbed but to prescribe the use of a multiplication factor to weight the "value" for restriction purposes of the particular goods upon the supply of which a special degree of limitation was desired. The supply of hose and half-hose containing silk and of domestic hollow-ware made wholly or partly of aluminium is prohibited.

The Limitation of Supplies (Woven Textiles) (No. 6) and (No. 7) Orders, 1941

Shortly before the expiration of the Limitation of Supplies (Woven Textiles) Order the Limitation of Supplies (Woven Textiles) (No. 6) Order, 1941, and the Limitation of Supplies (Woven Textiles) (No. 7) Order, 1941, were made. The latter Order, which came into force on March 15, 1941, brought piece-goods and made-up goods of wool under control from that date and at the same time fixed new quotas for cotton, rayon, linen and silk goods for the period from April 1 to September 30, 1941. The standard for the control both of these goods and of those of wool was taken as the trade of the period from April 1 to September 30, 1939, that is to say, the same period which served as the standard for the original Piece-Goods and Made-up Goods Order. It appears from this that the original standard periods are likely to continue to be adopted under succeeding Orders.

Apart from the extension of the control to wool goods and further reductions in the quotas for cotton, rayon, linen and silk goods, the most significant changes in the Woven Textiles (No. 7) Order were the elimination of

certain consumers (notably the railway companies, the N.A.A.F.I. and organisations such as the Y.M.C.A. and Y.W.C.A. comprising the Council of Voluntary War Work) from the privileged list and the reimposition of control on goods (notably black-out material and certain protective clothing) which were previously excepted. In view of the announcement of these changes before the No. 7 Order became effective on cotton, rayon, linen and silk supplies, the No. 6 Order was made on March 1, 1941, in order to incorporate the changes in the existing Woven Textiles Order for the remainder of its period of operation.

The other changes made by the No. 7 Order appear to have been aimed in the main at simplification of the structure of the scheme. The "special producer" provisions which, as previously mentioned, entailed the service of notices on all registered suppliers have been supplanted by a provision giving producers of goods listed in the Third Schedule to the Order the option of registration, and the number of different classes in which made-up goods have to be controlled has been reduced from 32 to 9. The provision for transfer of quotas has been modified to permit either the whole or part only of an unexhausted balance of quota to be transferred.

Licences

The power to authorise additional supplies by licence has been reserved by the Board of Trade under each of the Orders, and this power appears to have been exercised with considerable freedom. The licences issued have been of various kinds, some granted to individual registered traders, others to registered traders collectively, some for a specific quantity or value of goods, others for unlimited supplies of goods of a specified description or to specified persons or organisations. Many of the licences require conditions to be fulfilled before they become operative. All of them have effect only during the currency of the particular Order under which they are issued.

Of the General Licences issued, that is to say, licences granted to registered traders, or a class of registered traders, collectively, the most important series have been those permitting suppliers to replenish the stocks of unregistered traders to the extent that those stocks have been damaged by enemy action. Other General Licences have permitted supplies of approved fabrics to factories for the protection or replacement of window glass and additional supplies of goods of various kinds to certain organisations not already included in the list of privileged consumers. Licences have been issued to certain individual registered traders to permit disposal by them of goods salvaged from their own stocks after damage by enemy action, and to relax restriction where the strict application of the relevant Order would have operated contrary to the national interest.

It may be well to remind practitioners that all returns under the Miscellaneous Orders are on a basis of value, and that those under the Woven Textiles Orders are on the basis of quantity.

It will be apparent from the foregoing review of the structural development of the Limitation of Supplies Orders that the experience gained of returns under the original two Orders may not suffice for the examination of the returns under succeeding Orders. In studying these Orders, practitioners may find it helpful to read at the same time the Explanatory Memoranda which the Board of Trade have issued with each. These Memoranda and copies of the list of traders registered and of the General Licences issued under each of the Orders may be obtained from H.M. Stationery Office.

FINANCE**The Month in the City****Markets After the Budget**

As a direct and immediate influence on markets, the Budget was rapidly overshadowed by the rather chilling war news from the Mediterranean fronts, which had the usual effect of stifling business even more than depressing prices. Brewery and tobacco shares registered relief at their reprieve from still heavier excise duties. But there was little response in the sections directly affected by the promised E.P.T. concession to oil mines and companies producing metals "needed for the war," which was lately amplified as including gold. The precise nature of the proposed concessions will only become known with the Finance Bill and may then have some influence on the Stock Exchange, but some measure of relief had been confidently expected by the tin and copper industries and discounted—so far as markets discount anything these days—in share prices. Both industrials and gilt-edged have drifted slightly lower during the month, but whereas in the equity markets this continues a steady decline from the recent January peak, in fixed-interest securities it represents only a slight reverse after the February recovery. It will be recalled that at the end of March old War Loan actually reached a new peak for over four years of 105½ and the effect of the unfavourable war news has been limited to a reaction of less than 1 point, though in considering the general level of gilt-edged values it should be remembered that the present price includes almost a full half-year's interest. While the *Financial News* fixed-interest index has declined over a point on the month to 127.7, this is still 2 points higher than a year ago. At 66.5, on the other hand, the ordinary shares index shows a fall of over 9 points on the year.

Budget and the Investment Prospect

While it may have been almost entirely ignored for the moment, there is no doubt that in the long run the Budget has a variety of investment implications. The decision to retain 20 per cent. of the yield of E.P.T. for use by industry after the war, though it will ultimately be of great value in assuring reserves for post-war reconstruction, clearly removes any prospect of a reduction in the amount payable to the Treasury during the war. In an active and healthy market the prospective post-war credit would represent a definite bull point for the shares of companies paying large sums in E.P.T.—the market normally makes some allowance for high earnings yields, as distinct from dividend yields—but any such effect is likely to be limited under present conditions. On the other hand, there is now another reason for favouring shares whose dividends are amply covered by earnings. So long as it was assumed that we were in an inflationary phase, with industrial earnings held down only by 100 per cent. E.P.T., then the only shares holding out a good prospect of appreciation were those whose profits had still some distance to travel before reaching their standard.

Security Values With No "Inflationary Gap"

If one accepts the Chancellor's claim to have closed the inflationary gap, however, then it follows that the earnings of industry in the aggregate will cease to expand, while the profits of particular concerns will be adversely affected by such factors as limitation of supplies, the concentration scheme, war damage contributions and so on. Under these conditions, a substantial earnings cover acquires additional value. The rise in income tax also calls for some adjustment in valuations. Among other things, it sharply reduces the net redemption

yields of dated stocks standing appreciably above par. An extreme example is the Nigeria 6 per cent. 1949-79, standing at 118½, where the net redemption yield, with tax at 10s., is only £1 1s. 6d., while a holder liable to tax at 15s. would actually be losing 4s. per cent. Holders of high couponed stocks, therefore, would be well advised to consider the advisability of changing into 2½ per cent. or 3 per cent. issues. Finally, due attention must be given to the Chancellor's explicit statement that the Government has no intention of borrowing on worse terms as the war proceeds and hopes to improve on them. Taken at its face value, this indicates a further rise in gilt-edged values. And indeed, if the Government actually succeeds—through wage stabilisation, food subsidies, higher taxation and the stimulation of savings—in preventing an inflationary price rise, then this removes the only ultimate threat to a successful cheap money policy. On the other hand, to the extent that inflation is avoided in the short run, this must reduce the pressure of steadily accumulating investment money resulting from credit expansion, such as was responsible for the upswing in the latter half of 1940. Thus, the reaffirmation of cheap money should be read as encouraging confidence in present gilt-edged prices rather than holding out hopes of a further upswing in the near future, political factors apart.

Pending Conversion Issues

Particulars have now been announced of the terms and methods to be adopted for the conversion of £32,500,000 of high-yielding municipal stocks, for whose redemption the Treasury finally gave permission in March. As was expected, central government control over municipal finance is not to be carried to the point of issuing a single Government loan to be applied in repayment of all the maturing stocks. On the other hand, the Treasury is asking the local authorities concerned to adopt identical issue terms of 3½ per cent. at par for a life of 19 to 29 years. All that remains to be decided when the time comes for conversion, therefore, is the precise length of life indicated by the ruling level of gilt-edged values. The period which will elapse before the actual issue will be an exceptionally long one. In order to concentrate the conversion into two major operations, the municipalities have been asked all to give notice of repayment on May 1, so that three-months stocks will fall due for repayment on August 1 and six-months stocks on November 1. To encourage as many holders as possible to elect for conversion instead of repayment, the conversion offer is being kept open for two and five months respectively. In effect, therefore, holders are being given a free option on the gilt-edged market for the period of the offer. Another interesting conversion offer is the decision of the Australian Government to offer a three-year stock in replacement of the £13,500,000 of 3 per cent. stock and debentures maturing on October 1. At the time of the India stocks pay-off, it was feared that other Dominions might adopt similar methods in order to use accumulating sterling funds to the best advantage. The conversion offer is a clear indication that Australia, unlike India and Canada, is not embarrassed by any surplus of accumulating sterling. Indeed, it is known that the Commonwealth's heavy war expenditure overseas represents a severe drain on her sterling resources, notwithstanding the arrangement for some borrowing from the British Government for this purpose. The sterling balance of payments of New Zealand, as the Prime Minister recently announced, is even less comfortable.

— Points from Published Accounts

Iron and Steel Accounts

It is not altogether surprising that, taken as a whole, the 1940 accounts of iron and steel companies should have proved to be less informative than those published a year ago. These undertakings are playing such an important part in the war effort that what is desirable from the shareholders' point of view may well be undesirable from a wider angle. The general practice of stating trading profits after deduction of E.P.T. masks the real trend of turnover so effectively, however, that there seems little need to suppress particulars of other charges also. In respect of 1939, Cammell, Laird & Co., the shipbuilders and engineers, showed a trading profit of £448,151 (there was, too, net investment income of £157,947) subject, *inter alia*, to depreciation of £55,663 and a transfer of £300,000 to reserve for income tax, N.D.C. and E.P.T. This time, while net investment revenue is virtually unchanged, the trading profit is stated after providing for depreciation, taxation and contingencies; the net amount is £108,743, and a comparative figure of £92,488 is furnished for the previous year. In thus concealing the amount provided for depreciation the company is falling into line with many other companies. But any contention that this departure serves the national interest is difficult to support in face of the accounts of Vickers, which is, after all, our premier armaments undertaking. Vickers itself is a holding company, and with its own accounts it presents those of its wholly-owned subsidiary Vickers-Armstrongs and of the English Steel Corporation, which is controlled jointly by Vickers-Armstrongs and Cammell Laird. Throughout, comparative figures are inserted, and the trading profit of English Steel is shown to be £912,497 against £891,074, with depreciation amounting, however, to £400,000 against £350,000. An advance from £1,778,143 to £1,963,527 in the profit of Vickers-Armstrongs has also been nullified by a heavier depreciation charge—£1,000,000 in place of £750,000.

Deferred Repairs

Even here, however, matters are not made so plain as they might be. In each case the depreciation charge includes this time a "provision for deferred repairs," the amount of which is not disclosed. The same practice has been followed by Baldwins, which provides £150,000 against £120,000 under this omnibus heading, and by its associated company Guest Keen Baldwins, which provides £400,000 against £350,000. It seems to follow that the official comparison of the trading profits with that of the previous years is misleading, for in normal times the cost of repairs must have been deducted before arriving at the trading profit. It would have been better to have shown the true depreciation charge separately, and to have stated the 1940 trading profit after the deferred repairs provision, indicating the amount charged under this heading. A parallel difficulty is presenting itself to shipping companies, which in present circumstances cannot carry out the usual reconditioning work on vessels. Wm. France Fenwick makes a provision of £11,000 for deferred surveys, as well as appropriating £27,797 for depreciation. This is taken to reserve for surveys, contingencies and deferred repairs, which also receives the usual £10,000 appropriation from profit and loss. Cunard White Star, the main subsidiary of Cunard Steam Ship, has made no provision for deferred upkeep in its 1939 accounts, which were delayed owing to negotiations with the Government, and have only just been presented. In his review, the chairman makes it clear, however, that provision will have to be made in the 1940 accounts for

this liability. In any case, 1939 revenue has had to meet an exceptional charge of £124,531, representing the cost of establishing a complete reserve for cash, deposits and balances in European countries. After this appropriation, fleet depreciation of £1,032,211, and other charges the net profit is £421,499. This nominally goes against a profit of £461,887 earned in 1938; but that figure was returned before deducting fleet depreciation, and £976,280 is now debited to profit and loss for 1938 depreciation. As a result the carry-forward is reduced from £685,039 to £130,257. A true comparison would show profits of £546,030 in 1939, before allowing for the allocation to special reserve, in contrast with a loss of £514,393 in 1938. The extent of this loss was not made known to shareholders at the time—presumably on the grounds that to have deducted fleet depreciation would have left profit and loss in debit. It is not an adequate reason for failing to charge depreciation at the usual rate, still less for charging no depreciation at all, in the appropriate year.

Continental Assets

No uniform method has yet been evolved for dealing with possible capital losses arising out of war developments on the Continent. British Oxygen brings shares in subsidiaries into account at £1,594,594, but this figure is described as "including £180,000 invested in enemy-occupied country in respect of which no information is available." No specific provision has been made against this item, but it may be significant that, in addition to a deduction of £372,358 (against £249,675) for income tax, there is an allocation of £600,000 (against £134,100) described as "Provision for Excess Profits Tax, Income Tax and War Contingencies." British Aluminium has raised its reserve account to £2,950,000 by the transfer of £100,000 from profits, but £500,000 of the total has been earmarked as a full provision to cover assets in Norway and France. In this instance the book values of the assets in question are left unchanged. On the other hand, Courtaulds, in view of the position on the Continent, has applied £1,000,000 from general reserve to augmenting the reserves against investments in and advances to subsidiary and industrial companies. Since these reserves are deducted before stating the book values of the assets in question, these have in effect been written down by £1,000,000. A feature of the Courtaulds balance-sheet is that at December 31 the company held £1,329,163 in cash and £10,109,738 in British Government and other marketable investments. Taking the market value of £11,513,927 for these securities the combined total was £12,843,090—and under the arrangement to sell all but 5 per cent. of the holding in American Viscose so as to add to our stock of dollars, the company will receive another £9,000,000 in cash in the near future, and more some time later.

PERSONAL NOTES

Mr. Henry J. Burgess, F.S.A.A., has received a resolution of thanks from the Rates Finance Committee of the City of London for his services as Chairman of the Committee during the year 1940. The Committee records that his professional knowledge and experience have been of the greatest service in dealing with the many questions of major importance which have arisen during a most difficult and critical period.

Mr. Arthur B. Watts has taken into partnership Mr. H. P. Gregory. They will practice at 12, Museum Place, Cardiff, under the style of Messrs. Arthur B. Watts, Gregory & Co., Incorporated Accountants:

PUBLICATIONS

The Month's Publications

The Law of Income Tax. By E. M. Konstam, K.C. Eighth edition. (Stevens & Sons, Ltd., and Sweet & Maxwell, Ltd., London. Price £2 12s. 6d. net.)

This new edition of what has become a standard textbook covers the two Finance Acts of 1940, and includes references to cases as late as the autumn of that year. As a whole, it is a marvellously concise and lucid account of what the Acts lay down and what the cases have actually decided; and every practitioner's library will be improved by it. The scheme is a continuous narrative of 467 pages divided into eighteen chapters, followed by an appendix of 336 pages giving in very useful form the existing enactments and Regulations, and an index of 56 pages. No marginal notes are provided; and, in the reviewer's opinion, this is a defect which might be remedied in future editions.

The author does not purport to cover practice as well as law; and this limitation is of some importance. Thus, there is no mention of the White Paper of 1917 on stock valuation; but the reader is referred to *Bombay Commissioner v. Ahmedabad New Cotton Mills Co., Ltd.* (1929, 46 T.L.R. 68), in which the Privy Council radically restricted the use of "cost or market." Their decision has hitherto been ignored in this country.

Each method of presentation of a legal subject has drawbacks, and the author's is not immune. On page 6 there is the statement that "whether a company carries on business in the United Kingdom is to be answered by ascertaining where its head and seat and directing power are situate." This is not true unless after "*United Kingdom*" the words "so as to be assessable upon the whole of its profits" are inserted. As the author knows, the profits of all trades carried on in the U.K. are taxable unless excepted by international agreement.

Again, the author's conciseness tends to obscure the evolutionary character of case-law. In our issue of October, 1940, the exciting unfinished legal drama of *R. v. City of London Commissioners, ex parte Gibbs* (1940, 56 T.L.R. 1007), was unfolded. But no reader can grasp the position from the references in the text, and, in any case, the suggestion upon page 17 that Rule 9 to Cases I and II has become obsolete is only true as to partnerships. Upon page 17 it is stated, without reference to any special authority, that the income of a "sleeping partner" is not "earned." Despite current practice, the universal truth of this is dubious. The bare decision in *Cull v. Cowcher* (1934, 18 T.C. 449) is given; but there is no indication of the extremely important principle at stake. The Acts talk of "sources". But what is a "source"? Taking the case of a mortgaged house, the source of the mortgage interest would seem to be the mortgage deed. But as to the rent, if any, is it the contract of lease or the house itself? Much will depend on the answer, and it is a pity that in the *Cull* case it was not worth while for the taxpayer to go beyond King's Bench Division.

The index is copious and good, but capable of improvement. Capital redemption business is indexed under life assurance, but, although transacted by the life departments, it is not life assurance but general business. Otherwise there would have been no leak in the Revenue to be remedied by Section 27 of the Finance Act of 1938. Upon a sample check, no mention was found of "debts" or "sale."

W. B. COWCHER.

Excess Profits Tax. By C. L. King, K.C., and Michael Moore, F.C.A. (Butterworth & Co. (Publishers), Ltd., London. Price, 45s. net.)

The difficulties which confronted the authors of this work are clearly laid down in the opening words of the preface, and it speedily becomes apparent that a combination of erudition and wide practical experience has been brought to bear in the attempt to interpret statute law which is a notable example of legislation by reference. The book as a whole tends to direct attention to the considerations to be taken into account in dealing with a particular problem rather than to propound a solution.

Its value to the reader will depend largely upon the knowledge which he himself possesses of taxation law and practice, but possibly to an even greater extent on the size of his library. Extracts from the decided cases form a large part of the work, but the earnest student will be satisfied with nothing less than first-hand reference to the full reports.

Those who seek practical guidance rather than precise legal interpretation will derive most benefit from Division III, dealing with the computation of the standard profits—a clear and concise exposition. Not surprisingly, Division IV, dealing with the computation of profits and of capital, while helpful from the practical angle, leaves a certain sense of incompleteness. One could certainly have wished for more definite guidance on such points as the spread of obsolescence and the re-allocation of profits from contracts extending over more than one accounting period, which both arise frequently in practice.

A warm tribute must be paid to the authors for the detailed study they present of the complex provision relating to inter-connected companies. Large groups do not fall to the lot of the majority of the accountancy profession, but many companies have one or two wholly owned subsidiaries, and a study of Division VII will be extremely helpful in all such cases.

Nearly four hundred pages consisting mainly of repetition of the statutes, illuminated by an almost embarrassing wealth of reference to decided cases, hardly induce in the reader a state of mind suited to a nice appreciation of the ingenuity with which the inventor of the self-balancing computation seeks to demonstrate that the practical application of these involved provisions to the elaborate accounting records of modern commerce and industry is, after all, a simple matter—relatively! Comfort may be derived from the fact that, while supplements are contemplated, the size of the pocket provided suggests the authors apprehend that these are not likely to prove voluminous.

The book is a valuable work of reference rather than a day to day guide for the practising accountant.

A. STUART ALLEN.

BOOKS RECEIVED

Solicitors' Handbook of War Legislation. Third Supplement By S. M. Krusin, B.A., and P. H. Thorold Rogers, B.A., B.C.L. (Sweet & Maxwell, Ltd., London. Price 15s. net.)

Loose-Leaf War Legislation, 1940-41. Edited by John Burke. Part 8. (Hamish Hamilton (Law Books) Ltd., London. Price 5s. net each part.)

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The series is brought up to date each month, and the nineteenth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ORDERS

COMMUNICATIONS

No. 359. *Control of Communications Order (No. 1), 1941.*

Previous Control of Communications Orders are revoked and re-enacted with slight amendments. Egypt and Irak are now among the countries to which documents, etc., may not be sent without a permit. (See ACCOUNTANCY, August, p. 299.)

COMPANIES

No. 428. *Order in Council adding Regulation 4 to the Defence (Companies) Regulations, 1940.*

The Board of Trade may relax any obligation requiring the holding of meetings or the presentation of accounts of companies. So far as is practicable, the Board is to require information to be furnished to the persons who would have been entitled to have the accounts laid before them.

(See ACCOUNTANCY, August, 1940, p. 299.)

EVACUATED AREAS

No. 261. *Order in Council amending the Defence (Evacuated Areas) Regulations, 1940.*

The Defence (Evacuated Areas) Regulations are extended to Northern Ireland from February 28, 1941. (See ACCOUNTANCY, August, 1940, p. 299.)

EXPORTS

Nos. 377, 425, 492. *Export of Goods (Control) Orders, 1941, Nos. 12 to 14.*

Goods not marked A or B in the schedule may be exported through ports in Brazil, Chile, Colombia and Peru to Argentina, British and Dutch Guiana, Bolivia, Ecuador, Paraguay, Uruguay or Venezuela. Further amendments are made in the schedule of goods subject to export control.

(See ACCOUNTANCY, April, p. 127.)

FINANCE

No. 415. *Defence (Finance) (Definition of Sterling Area) (No. 2) Order, 1941.*

The sterling area is extended to include territories under the control of the Council of Defence of the French Empire in Africa, Oceania and India, and also Iceland and the Faroe Islands.

No. 474. *Order in Council Amending Regulations 3B and 5B of the Defence (Finance) Regulations, 1939.*

Securities may not be altered to bearer form. When goods have been exported from the sterling area, it is forbidden to delay the sale of the goods unreasonably, or to hinder the prompt payment of their full value in the prescribed manner to a person resident in the sterling area.

(See ACCOUNTANCY, March, p. 100.)

No. 389. *Securities (Exemption) (No. 1) Order, 1941.*

Certain securities of Greece, Mexico and Turkey, the cities of Baku and Brussels, and the Moscow-Windau-Rybinsk Railway Company are exempted from the liability to restrictions on dealings and compulsory acquisition under Regulation 1 of the Defence (Finance) Regulations.

No. 520. *Acquisition of Securities (No. 3) Order, 1941.*

Holdings of a wide range of American stocks, shares and bonds are acquired by the Treasury.

(See ACCOUNTANCY, March, p. 100.)

TRADING WITH THE ENEMY

Nos. 339, 458. *Trading with the Enemy (Specified Persons) (Amendment) Orders, 1941, Nos. 4 and 5.*

Insertions, deletions and amendments are made in the list of traders in neutral countries with whom dealings are prohibited.

(See ACCOUNTANCY, April, p. 127.)

WAR DAMAGE

No. 450. *War Damage (Business Scheme) Order, 1941.*

Forms of policies are prescribed for war damage insurance under the business scheme, with special forms for agriculture and for certain other special purposes. The scheme is compulsory from April 17, 1941. Premiums of $\frac{1}{4}$ per cent. are payable for each of three periods ending on June 15, August 15 and September 30, 1941.

No. 451. *War Damage (Private Chattels Scheme) Order, 1941.*

A form of policy is prescribed for the insurance of private chattels. Premiums are to be 1 per cent. per annum for the first £2,000, $1\frac{1}{4}$ per cent. per annum for the next £1,000 and 2 per cent. per annum for the next £7,000. If a claim does not exceed £25 immediate payment may be made.

(See ACCOUNTANCY, April, p. 127.)

WAR DAMAGE TO BUILDINGS AND LAND

The War Damage Commission has opened four Regional Offices for London. Announcements will be made later of the dates on which offices will be opened in the provinces. Notifications of damage to land and buildings should be sent to the appropriate office on the new form C.1, unless form V.O.W.1 has already been completed. Form C.1, together with a short explanatory pamphlet, is obtainable from the Commission's regional offices, from the District Valuer, and from most municipal offices. The War Damage Commission is not concerned with the insurance of goods and chattels.

The addresses of the London regional offices are as follows:—

N.W. London.—Government Building, Bromyard Avenue, Acton, W.3. For the area north of the Thames from Westminster to Staines, and as far north as Enfield, Barnet and Watford.

N.E. London.—Finsbury Square House, 33-37A, Finsbury Square, E.C.1. For the City of London and an area extending to Dagenham and Waltham Holy Cross.

S.E. London.—Clifton House, Euston Road, N.W.1. For an area extending from Bermondsey to Erith, Orpington and Beckenham.

S.W. London.—55, Eden Street, Kingston-on-Thames. For the remainder of South and South-West London, extending to Surbiton and Coulsdon.

Society of Incorporated Accountants

COUNCIL MEETING

FRIDAY, APRIL 4, 1941

Present: Mr. Percy Toothill (President), in the Chair; Mr. Richard A. Witty (Vice-President), Mr. F. J. Alban, Mr. A. Stuart Allen, Mr. J. Paterson Brodie, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Walter Holman, Sir Thomas Keens, Mr. Edmund Lund, Mr. Henry Morgan, Mr. C. Hewetson Nelson, Mr. Bertram Nelson, Mr. T. Harold Platts, Mr. F. A. Prior, Mr. Joseph Stephenson, Mr. Joseph Turner, Mr. Fred Woolley and Mr. A. A. Garrett (Secretary).

RESIGNATIONS

The following resignations of membership were accepted with regret as from December 31, 1940:

Grant, James Dawson (Associate), Horley.
Hodges, John Samuel (Associate), Pietermaritzburg.
Sheppard, Kenneth Arthur (Associate), Durban.

DEATHS

The Secretary reported with regret the death of each of the following members:

Adcock, Edward Almey (Associate), London.
Gavin, John Steel (Fellow), Glasgow.
Goldsbury, James Tesselar (Fellow), Johannesburg.
Harris, Ernest Albert (Associate), Sydney.
Hitch, Hubert Harold (Associate), London.
Hodges, Richard John (Associate), London.
Holmes, John Richard (Associate), Rotherham.
Moffitt, John (Fellow), Portsmouth.
Smith, John Rollings (Associate), London.

AWARD OF GOLD AND SILVER MEDALS, 1940, AND OF THE SIR JAMES MARTIN MEMORIAL EXHIBITION

The following awards were made:

Gold Medal to Mr. Stanley Ward, Rochdale (1st Certificate of Merit, Final Examination, July, 1940).
Silver Medal to Mr. C. McD. Whitaker, Cambridge (2nd Certificate of Merit, Final Examination, December, 1940).
Sir James Martin Memorial Exhibition to Mr. J. H. Annison, Brighton (5th Certificate of Merit, Intermediate Examination, July, 1940).

ACCOUNTANCY AS A RESERVED OCCUPATION

A report was received that a revised Schedule of Reserved Occupations was expected to be issued within a few days, and the considerations arising were discussed by the Council.

LIMITATION OF SUPPLIES ORDERS

Conversations had taken place among representatives of the accountancy bodies, and communications had been sent to the Board of Trade with a view to facilitating the procedure relating to certification of returns required by the Limitation of Supplies Orders.

NEW ZEALAND SOCIETY OF ACCOUNTANTS

The Council received the terms of a resolution adopted at the annual meeting of the New Zealand Society of Accountants which had been communicated by cable. In extending their greetings the members of the New Zealand Society expressed their sympathy with the members of the profession practising in Great Britain under the present difficult circumstances, and very kindly offered to receive as guests the children of Incorporated Accountants who could be sent to New Zealand. The President intimated that he had sent to the New Zealand Society a cable conveying the heartfelt thanks of the Society of Incorporated Accountants.

CONCENTRATION OF PRODUCTION

The Council appointed a Sub-Committee to consider the operation of the proposals for the Concentration of Production, particularly as regards the work of the accountancy profession in relation to schemes for concentration.

A Special Meeting of the Council was held on April 4, 1941. Upon consideration of a report from the Disciplinary Committee, Mr. Bertram Greenland, Associate, Oldham, was excluded from membership of the Society in accordance with the provisions of Article 35.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Society will be held at Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2, on Thursday, May 22, at 2.30 p.m. It will be followed by the annual general meeting of the Incorporated Accountants' Benevolent Fund.

EXAMINATIONS

The next Examinations of the Society will be held at Sedburgh, Taunton, Glasgow, Dublin and Belfast on July 30 and 31 and August 1 next. Members and candidates are reminded that applications must be lodged at Incorporated Accountants' Hall by May 30, 1941.

SOUTH AFRICAN (NORTHERN) BRANCH

Annual Report

Seven new members were admitted during the year. The total membership of the branch on December 31, 1940, was 266. Notification was received with regret of the death of Mr. J. T. Goldsbury, who was chairman of the branch in 1910 and 1921. Twenty-four members and 41 articulated clerks are known to be on active service.

At the annual meeting in 1940 it was unanimously agreed that £26 5s. be granted to the Society's Benevolent Fund.

It was also unanimously resolved that £21 be given to the South African Mayors' National Fund for the use of the Government of the United Kingdom.

The Committee has accepted with regret the resignation of Mr. V. L. Andersson, who is on active service in Rhodesia.

MEMBERSHIP

The following promotions in the membership of the Society have been completed:—

ASSOCIATES TO FELLOWS

Derwent, William George Thomas, London, Practising Accountant; Harris, Victor John Henry (Benbow and Ains), Northampton, Practising Accountant; Mandre, Subbaras Gnanobaras, B.A., Ph.D. (S. G. Mandre & Co.), Bombay, Practising Accountant; Mowat, James Alexander, Glasgow, Practising Accountant; Pettit, Cyril Henry (Benbow & Ains), Northampton, Practising Accountant; Potter, John James (John J. Potter & Co.), Birmingham, Practising Accountant.

REMOVALS

Mr. Clifford J. B. Andrews, Incorporated Accountant, has removed his offices to 4, Cinema Buildings, Poole Road, Bournemouth W.

Messrs. Coles & Co. have transferred their practice to 29, Harmer Street, Gravesend.

Mr. D. H. Husband, Incorporated Accountant, is now practising at 460, Cowbridge Road, Victoria Park, Cardiff.

Mr. Fred Scorah, Incorporated Accountant, announces a change of address to 10, Brookside Bar, Chesterfield.

Messrs. A. P. Smith & Co., Incorporated Accountants, have removed their offices to 70, Spring Gardens, Manchester.

Messrs. Cooper, Scott & Co., have removed their offices to Pinners Hall, Austin Friars, London, E.C.2.

Messrs. Brown, Phillips & Stewart have removed their offices to 29, Beach Street, Penang (S.S.).

Messrs. Morton, Moller, Sheen & Co. announce that they are now practising at Moorgate Hall, Moorgate, London, E.C.

Mr. R. Vaughan, Incorporated Accountant, announces a change of address to 152, Union Road, Oswaldtwistle.

Messrs. Morgan Brothers & Co., Incorporated Accountants, announce that their practice is now being carried on at 38, Leigham Drive, Isleworth, Middlesex, and 2, Dennis Parade, Winchmore Hill Road, Southgate, N.14.

Messrs. Henry Morgan, F. W. E. Morgan, O. A. Hibbert, Geoffrey Morgan and F. Woods will be available at Isleworth, and Messrs. L. H. Graves and H. J. Sier at Southgate.

Messrs. R. H. Bridgewater & Co. are now practising at a temporary office at 105, Colmore Row, Birmingham.